

Message Text

UNCLASSIFIED

PAGE 01 NEW DE 03027 01 OF 02 041442Z

51

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 AGR-10 INT-05 OES-05 FEAE-00

CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02 NSAE-00 NSC-05

PA-02 PRS-01 SP-02 SS-15 USIA-15 AID-05 COME-00 EB-07

FRB-01 TRSE-00 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01

OMB-01 CU-04 HEW-06 DOTE-00 TAR-01 IGA-01 /139 W

----- 011295

R 041235Z MAR 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7288

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

USMISSION OECD

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS SECTION 1 OF 2 NEW DELHI 3027

E.O. 11652: N/A

TAGS: EFIN IN

SUBJECT: INDIAN BUDGET FOR IFY 1975/76

SUMMARY: THE INDIAN BUDGET FOR IFY 1975/76 PRESENTED TO PARLIAMENT ON FEBRUARY 28 IS UPBEAT AND SAYS MANY OF THE RIGHT THINGS AND TRIES TO MOVE IN THE RIGHT DIRECTION. IT STRESSES THE CRITICAL IMPORTANCE OF AGRICULTURE AND ENERGY. HOWEVER, FOR THE MOST PART, THE BUDGET INCREASES PROPOSED WILL DO LITTLE MORE THAN KEEP PACE WITH LAST YEAR'S INFLATION. THE BUDGET PROVIDES FOR RS. 2.39 BILLION IN NEW TAXES AND PROJECTS AN OVERALL DEFICIT OF RS. 2.25 BILLION. TOTAL EXPENDITURES ARE PROJECTED AT RS. 107.67 BILLION AND RECEIPTS AT RS. 105.42 BILLION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NEW DE 03027 01 OF 02 041442Z

DEFENSE EXPENDITURES ARE RS. 22.74 BILLION AND ACCOUNT FOR 21

PERCENT OF TOTAL CENTRAL GOVERNMENT EXPENDITURES. DEVELOPMENT EXPENDITURES ARE ESTIMATED AT RS. 58.7 BILLION. END SUMMARY.

OVERVIEW.

1. FINANCE MINISTER SUBRAMANIAM PRESENTED THE CENTRAL GOVERNMENT BUDGET FOR IFY 1975/76 (BEGINNING APRIL 1) TO PARLIAMENT ON FEBRUARY 28. IN HIS BUDGET SPEECH SUBRAMANIAM SAID THE TWO MAJOR PROBLEMS PRESENTLY CONFRONTING INDIA ARE STOPPING INFLATION AND GETTING THE ECONOMY MOVING AGAIN. HE ALSO RECOGNIZED THAT POLICY MEASURES TO TACKLE THESE PROBLEMS ARE NOT THE SAME. HE SAID THAT THE BUDGET CONCENTRATES ON SELECTED KEY SECTORS, WHICH HE DEFINED AS AGRICULTURE, ENERGY, AND INDUSTRIES PRODUCING INPUTS FOR THEM. HE ALSO STRESSED THE IMPORTANCE OF THE EXPORT SECTOR AND DWELT AT LENGTH ON THE NEED TO IMPROVE THE LOT OF THE POOREST SECTORS IN THE ECONOMY. WITH REGARD TO AGRICULTURE, HE EMPHASIZED FOUR THINGS: SEEDS, FERTILIZERS, IRRIGATION AND POWER, AND BANK CREDIT. AS REGARDS ENERGY, HE SAID THAT SUBSTANTIAL RECENT PROGRESS HAD BEEN MADE IN INCREASING PRODUCTION OF BOTH COAL AND OIL, AND HE WAS OPTIMISTIC THAT FUTURE PROGRESS WOULD BE EVEN FASTER. THE SPEECH WAS UPBEAT PSYCHOLOGICALLY AND WAS CAST IN TERMS THAT SUGGESTED A DEPARTURE FROM PAST POLICIES. FOR EXAMPLE, " IT IS OUR PURPOSE TO INVEST NOW IN PROJECTS IN IMPORTANT AREAS THAT WILL YIELD QUICK RESULTS, AND COMPLETE THOSE IN AN ADVANCED STAGE OF IMPLEMENTATION." HOWEVER, FOR THE MOST PART, BUDGET INCREASES GO LITTLE BEYOND PROVIDING ADDITIONAL FUNDS TO KEEP PACE WITH PAST PRICE INFLATION. SUBRAMANIAM'S ANALYSIS AND STATEMENT OF AIMS READ WELL BUT, AS IS USUALLY THE CASE WITH BUDGETS, BUILT-IN RIGIDITY AND THE SCARCITY OF AVAILABLE RESOURCES HAVE SEVERELY LIMITED THE DEGREE TO WHICH THE BUDGET HAS BROKEN NEW GROUND.

REVISED ESTIMATED - IFY 1974/75

2. PRIOR TO DETAILING THE BUDGET FOR NEXT YEAR, SUBRAMANIAM REVIEWED CHANGES IN THE CURRENT YEAR'S BUDGET SINCE ITS INTRODUCTION IN FEBRUARY 1974. HE SAID EXPENDITURES FOR 1974/75 ARE NOW ESTIMATED TO BE RS. 101.1 BILLION, OR 14 PERCENT HIGHER THAN THE INITIAL BUDGET ESTIMATE OF RS. 88.6 BILLION. THE MAIN REASONS FOR THIS RISE ARE HIGHER SUBSIDIES FOR FOOD AND FERTILIZER, UNCLASSIFIED

UNCLASSIFIED

PAGE 03 NEW DE 03027 01 OF 02 041442Z

INCREASED DEFENSE EXPENDITURES, LARGER THAN ANTICIPATED PAYMENTS TO STATE GOVERNMENTS FOR DROUGHT AND FLOOD RELIEF, AND GREATER THAN BUDGETED COST OF LIVING ALLOWANCES TO GOVERNMENT EMPLOYEES.

3. FORTUNATELY REVENUES WERE ALSO HIGHER THAN EXPECTED AND ARE NOW ANTICIPATED TO BE RS. 94.8 BILLION, OR RS. 7.4 BILLION ABOVE THE ORIGINAL ESTIMATE. THE INCREASE WAS DUE MAINLY TO LARGER CUSTOMS AND EXCISE TAX COLLECTIONS AND HIGHER REPAYMENTS TO THE

CENTER BY STATE GOVERNMENTS.

4. THE MORE RAPID GROWTH OF EXPENDITURES DURING THE YEAR HAD THE EFFECT OF INCREASING THE EXPECTED BUDGET DEFICIT FOR IFY 1974/75 FROM THE RS. 1.26 BILLION ESTIMATED AT THIS TIME LAST YEAR TO RS. 6.25 BILLION.

IFY 1975/76 BUDGET ESTIMATES

REVENUES.

5. CENTRAL GOVERNMENT RECEIPTS ON CURRENT ACCOUNT, NET OF STATE GOVERNMENTS SHARE OF TAX REVENUES, ARE ESTIMATED TO BE RS. 71.1 BILLION OR 26 PERCENT ABOVE THE ORIGINAL ESTIMATE FOR 1974/75. REVENUES FROM TAX CHANGES (MAINLY EXCISE TAX INCREASES) CONTRIBUTE RS. 2.39 BILLION TO THE TOTAL. SUBRAMANIAM SAID THAT THE EXCISE TAX INCREASES WERE DESIGNED NOT ONLY TO RAISE REVENUE BUT ALSO TO CREATE EXPORT SURPLUSES BY REDUCING DOMESTIC CONSUMPTION OF COMMODITIES WITH A GOOD EXPORT MARKET SUCH AS SUGAR.

DIRECT TAXES.

6. SEVERAL SMALL CHANGES HAVE BEEN INTRODUCED IN THE PERSONAL AND CORPORATE INCOME TAX STRUCTURE TO ENCOURAGE SAVINGS AND INVESTMENT. NOTABLE WAS THE INTRODUCTION OF A TAX CONCESSION FOR THE HIGHER EDUCATION OF UP TO TWO CHILDREN OF MIDDLE INCOME FAMILIES, AND AN INCREASE FROM RS. 2,000 TO RS. 4,000 IN THE AMOUNT OF LONG TERM SAVINGS EXEMPTED FROM TAX. OTHER DIRECT TAX CHANGES INCLUDES EXEMPTION FROM WEALTH TAX OF EQUITY INVESTMENT IN NEW PRIORITY SECTOR INDUSTRIAL UNITS, EXTENSION OF DEVELOPMENT REBATES TO SHIPPING COMPANIES ACQUIRING SHIPS BEFORE JANUARY 1977 AND EXEMPTION FROM TAX ON INTER-CORPORATE DIVIDENDS. TAKEN TOGETHER, DIRECT TAX CHANGES WILL UNCLASSIFIED

UNCLASSIFIED

PAGE 04 NEW DE 03027 01 OF 02 041442Z

RESULT IN A NET REVENUE INCREASE OF ONLY RS. 30 MILLION IN IFY 1975/76.

INDIRECT TAXES.

7. EXCISE DUTIES HAVE BEEN RAISED ON A WIDE RANGE OF CONSUMER ITEMS INCLUDING PETROLEUM PRODUCTS, TEA, SUGAR, TOBACCO, CIGARETTES, AND COTTON TEXTILES. AN INNOVATION IN THE 1976/76 BUDGET, DESCRIBED BY SUBRAMANIAM AS FRANKLY AN EXPERIMENT, IS A GENERAL ONE PERCENT EXCISE DUTY ON ALL DOMESTIC PRODUCTS NOT ALREADY SUBJECT TO EXCISE TAX. THIS IS A START TOWARDS A NATIONAL GENERAL SALES TAX.

8. THE BUDGET PROPOSES NO CHANGE IN CUSTOMS TARIFFS ALTHOUGH COUNTERVAILING DUTIES ON IMPORTS (BORDER TAX ADJUSTMENTS)

REFLECTING HIGHER DOMESTIC EXCISE TAXES, MAINLY ON COPPER AND ZINC
WILL YIELD AN ADDITIONAL RS. 340 MILLION.

9. INDIRECT TAX CHANGES ARE ESTIMATED TO YIELD RS. 2.85 BILLION
OF THE TOTAL EXPECTED INCREASE OF RS. 2.88 BILLION RESULTING FROM
BOTH DIRECT AND INDIRECT TAX CHANGES.SAXBE

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 NEW DE 03027 02 OF 02 041549Z

51

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 AGR-10 INT-05 OES-05 FEAE-00

CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02 NSAE-00 NSC-05

PA-02 PRS-01 SP-02 SS-15 USIA-15 AID-05 COME-00 EB-07

FRB-01 TRSE-00 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01

OMB-01 CU-04 HEW-06 DOTE-00 TAR-01 IGA-01 /139 W

----- 012236

R 041235Z MAR 75

FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 7289
INFO AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KATHMANDU
AMEMBASSY LONDON
USMISSION OECD
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS SECTION 2 OF 2 NEW DELHI 3027

CAPITAL REVENUES.

10. RECEIPTS ON CAPITAL ACCOUNT ARE ESTIMATED AT RS. 34.3
BILLION, UP FROM RS. 31 BILLION IN IFY 1974/75. NET MARKET
BORROWINGS ARE ESTIMATED TO DECLINE BY RS. 1.73 BILLION TO A LEVEL
OF RS. 3.25 BILLION IN IFY 1975/76, LARGELY DUE TO PROJECTED
HIGHER REPAYMENTS BY STATE GOVERNMENTS TO THE CENTER.

FOREIGN AID

11. THE BUDGET ASSUMES FOREIGN ASSISTANCE (NET OF PRINCIPAL REPAYMENT) OF RS. 6.13 BILLION FOR IFY 1975/76, UP FROM A REVISED ESTIMATE OF RS. 5.95 BILLION FOR UNCLASSIFIED

UNCLASSIFIED

PAGE 02 NEW DE 03027 02 OF 02 041549Z

IFY 1974/75. THE BUDGET ASSUMES NO NEW AID AND NO DEBT RESCHEDULING FROM THE UNITED STATES. NET BORROWING FROM THE BANK/IDA GROUP IS ESTIMATED TO RISE BY RS. 928 MILLION TO RS. 3.5 BILLION IN IFY 1975/76. NET ASSISTANCE FROM OTHER TRADITIONAL DONORS IS ASSUMED TO BE RS. 3 BILLION--THE SAME LEVEL AS LAST YEAR. IN ADDITION, THE BUDGET ASSUMES PETROLEUM CREDITS OF RS. 2.30 BILLION FROM IRAN, IRAQ, AND ABU DHABI.

12. TOTAL RECEIPTS ON BOTH CURRENT AND CAPITAL ACCOUNT WILL AMOUNT TO RS. 105.4 BILLION, UP 20.6 PERCENT OVER THE INITIAL BUDGET ESTIMATE FOR IFY 1974/75.

EXPENDITURES

13. EXPENDITURES ARE BUDGETED TO INCREASE BY 21 PERCENT TO A LEVEL OF RS. 107.7 BILLION IN IFY 1975/76, OF WHICH 55 PERCENT IS ALLOCATED FOR DEVELOPMENTAL EXPENDITURES (BOTH DIRECTLY AND VIA TRANSFERS TO THE STATES) COMPARED WITH 51 PERCENT IN IFY 1974/75, DEFENSE ACCOUNTS FOR 21 PERCENT, INTEREST PAYMENTS 11 PERCENT, AND OTHER SERVICES FOR THE REMAINING 13 PERCENT. AS MENTIONED EARLIER, THE BUDGET STRESSES INCREASED EXPENDITURE FOR AGRICULTURE AND ENERGY. HOWEVER, ALTHOUGH THE INCREASES IN THESE AREAS ARE SIGNIFICANT, THE TOTAL FOR AGRICULTURE AND ENERGY AMOUNTS TO ONLY 7 PERCENT OF TOTAL GOI EXPENDITURES IN IFY 1975/76. ASSUMING THAT CENTRAL GOVERNMENT SPENDING INCREASES AS BUDGETED DURING 1975/76 AND THAT THE RATE OF PRICE INFLATION SLOWS DOWN CONSIDERABLY SO THAT GNP IN CURRENT PRICES DOES NOT INCREASE BY MORE THAN 10 PERCENT, BUDGET EXPENDITURES WOULD EQUAL 13.5 PERCENT OF INDIA'S GNP NEXT YEAR COMPARED WITH 12.5 PERCENT IN IFY 1974/75.

DEFENSE EXPENDITURES

14. DEFENSE EXPENDITURES ARE ESTIMATED AT RS. 22.7 BILLION, AN INCREASE OF 18.7 PERCENT OVER THE INITIAL ESTIMATE OF IFY 1974/75. HOWEVER, BECAUSE DEFENSE EXPENDITURES DURING THE CURRENT YEAR WERE SO MUCH HIGHER THAN EXPECTED, PROJECTED 1975/76 EXPENDITURES ARE ONLY 5.4 PERCENT UP OVER THE REVISED ESTIMATE FOR THE SAME YEAR. THE FINANCE MINISTER EXPLAINED THAT HIGHER EXPENDITURES IN IFY 1974/75 RESULTED MAINLY FROM REVISION OF PAY SCALES, RISE IN PRICES OF PETROLEUM PRODUCTS, AND HIGHER COST OF FOOD SUPPLIES AND TRANSPORT. THE EMBASSY UNCLASSIFIED

UNCLASSIFIED

PAGE 03 NEW DE 03027 02 OF 02 041549Z

ESTIMATES THAT THE REVISED FIGURE FOR INDIAN DEFENSE EXPENDITURES IN 1974/75 AMOUNTS TO 3.1 PERCENT OF GNP AND THAT THE SHARE WILL DROP TO 2.8 PERCENT IN 1976/75 -- ALMOST THE SAME AS THE INITIAL ESTIMATE FOR 1974/75.

PLAN EXPENDITURES

15. THE BUDGET PROVIDES RS. 36.12 BILLION FOR EXPENDITURES FOR THE ANNUAL PLAN FOR IFY 1975/76. THIS IS AN INCREASE OF 22 PERCENT OVER CENTRAL GOVERNMENT EXPENDITURES ON THE PLAN IN IFY 1974/75. WHEN ADDITIONAL EXPENDITURES BY STATE GOVERNMENTS ARE INCLUDED, TOTAL PLAN EXPENDITURES WOULD BE RS. 59.60 BILLION OR A 23 PERCENT INCREASE IN FINANCIAL TERMS OVER THE INITIAL PLAN ESTIMATE FOR 1974/75. IN REAL TERMS, HOWEVER, PLAN EXPENDITURES IN INDIA NEXT YEAR WILL BE APPROXIMATELY THE SAME AS IN THE CURRENT YEAR. IN ADDITION TO AGRICULTURE AND ENERGY, OTHER AREAS OF ECONOMIC DEVELOPMENT THAT WOULD RECEIVE PRIORITY ARE FERTILIZERS, CEMENT AND PAPER. EXPENDITURES ON FAMILY PLANNING PROGRAMS WILL INCREASE TO RS. 632 MILLION IN 1975/76 FROM RS. 541 MILLION BUDGETED IN 1974/75.

DEFICIT

16. THE PROJECTED IFY 1975/76 DEFICIT, PRIOR TO PROVISION FOR NEW TAX REVENUES, WAS RS. 4.64 BILLION. ADDITIONAL TAX REVENUE PROVIDED FOR IN THE BUDGET REDUCES THE CENTRAL GOVERNMENT'S DEFICIT TO RS. 2.25 BILLION. HOWEVER, THE BUDGET AS PRESENTED MAKES NO PROVISION FOR THE PAYMENT OF COST OF LIVING INCREASES TO GOVERNMENT EMPLOYEES DURING 1975/76. SUCH INCREASES MAY AMOUNT TO AS MUCH AS RS. 4.00 BILLION NEXT YEAR. AS A RESULT, THE ACTUAL DEFICIT IN 1975/76 WILL BE SUBSTANTIALLY HIGHER THAN THE PRESENT BUDGET ESTIMATE.

PRESS REACTION

17. PRESS REACTION TO THE BUDGET WAS MIXED. IN A TYPICAL EDITORIAL "MORE TAXES, VAGUE AIMS", THE ECONOMIC TIMES COMMENTED: "SOMETHING FOR ALMOST EVERYBODY IS PERHAPS A CHARITABLE UP-BEAT WAY OF LOOKING AT -- THE BUDGETARY EXERCISE ...NOT MUCH FOR ANY BODY IS THE MORE SHOCKING AND PROBABLY MORE ACCURATE VERSION OF THE BUDGET". OTHER NEWSPAPERS NOTED THAT THE WIDE RANGING

UNCLASSIFIED

PAGE 04 NEW DE 03027 02 OF 02 041549Z

EXCISE TAX INCREASES WILL HIT THE COMMON MAN. THE STATESMAN SAID THAT THE FINANCE MINISTER HAD TO SHOW THAT PLAN OUTLAYS WILL BE

LARGER NEXT YEAR, AND THAT DEFENSE EXPENDITURES WILL BE UP.
IN A REVIEW OF THE BUDGET, THE TIMES OF INDIA NOTED THAT "IT WOULD
PERHAPS BE DIFFICULT TO IMPROVE UPON THE PROGRAMME OF ACTION
OUTLINED BY THE FINANCE MINISTER IN HIS BUDGET SPEECH. IT HAS ALL
THE ELEMENTS OF A WELL-DRAFTED ELECTION MANIFESTO. HOW THE PROGRAMME
IS IMPLEMENTED WILL BE WATCHED WITH KEEN INTEREST."

18. WE ARE POUCHING 11 SETS OF THE BUDGET DOCUMENTS UNDER CERP.

19. WE HAVE AVOIDED DOLLAR CONVERSIONS OF RUPEES FIGURES IN VIEW
OF CONSTANT FLUCTUATIONS IN THE EXCHANGE RATE. RECENTLY THE RUPEE-
DOLLAR RATE HAS BEEN ABOUT RS. 7.70 EQ DOLS1.00SAXBE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, GOVERNMENT BUDGET, EXPENDITURES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE03027
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750075-0628
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750384/aaaacycp.tel
Line Count: 343
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 06 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 JUN 2003 by SilvaL0>; APPROVED <23 FEB 2004 by CollinP0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDIAN BUDGET FOR IFY 1975/76 SUMMARY: THE INDIAN BUDGET FOR IFY 1975/76 PRESENTED TO
TAGS: EFIN, IN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006